

The Implications of District Budgetary Challenges for Local and State Policy: Lessons from Sacramento and Marin

November 8, 2019
Sacramento, California



PACE's mission: *Improving education policy and practice and advancing equity through evidence*

PACE is an independent, non-partisan research center that bridges the gap between research, policy, and practice, through:

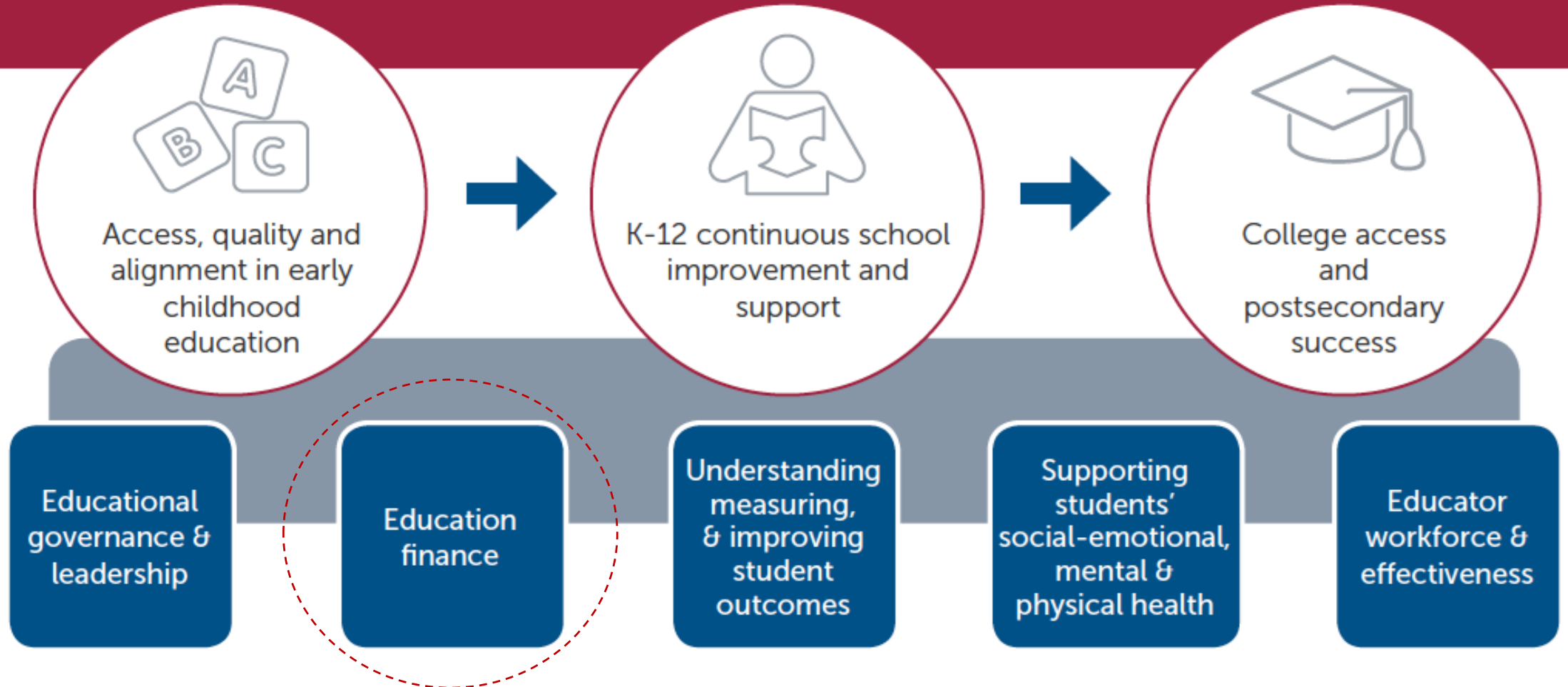
- 1 bringing evidence to bear on the most critical issues facing our state;
- 2 making research evidence accessible; and
- 3 leveraging partnership and collaboration to drive system improvement.

PACE is led by faculty directors at:

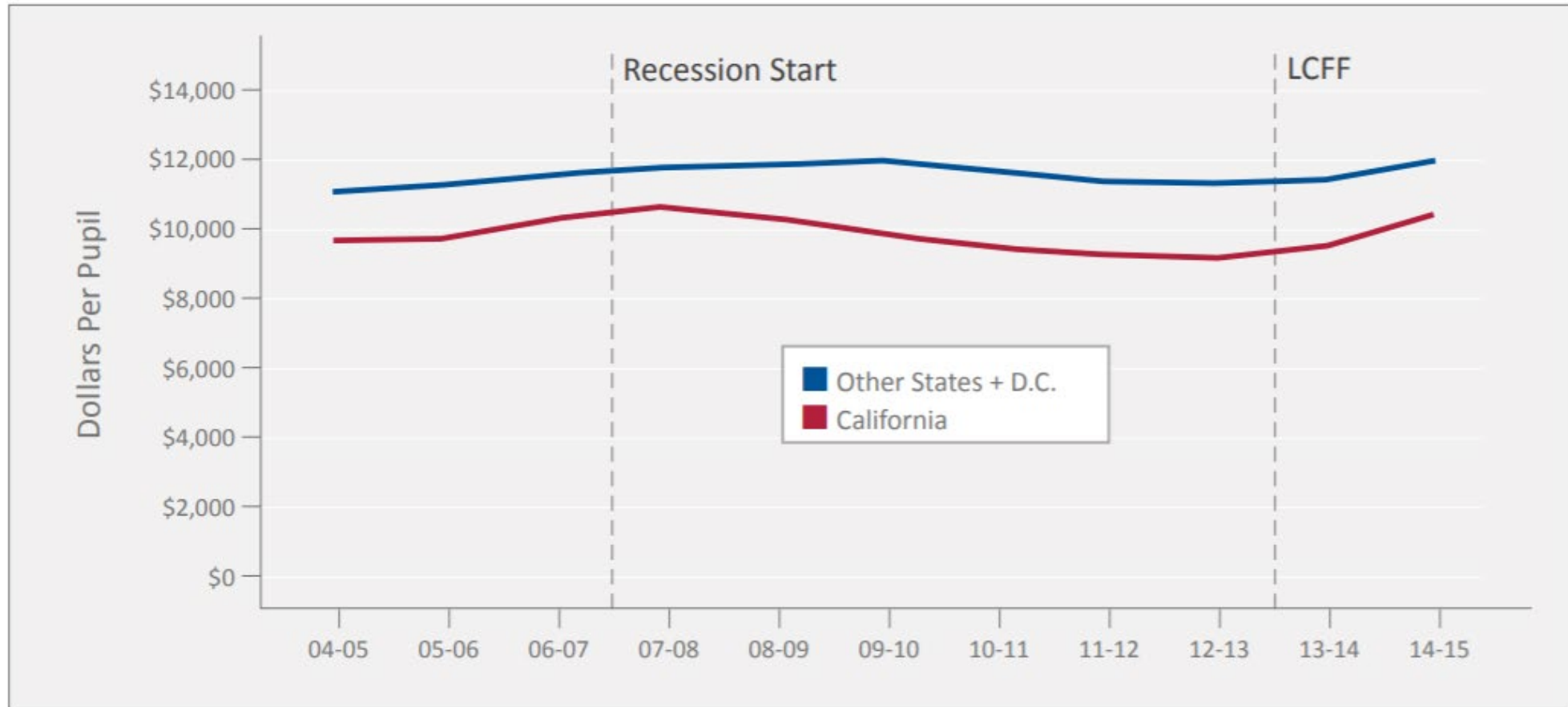


PACE's focus areas

Our goal is to produce research within all levels of California's education system, with a particular focus on alignment in systems. We focus on the following topics:

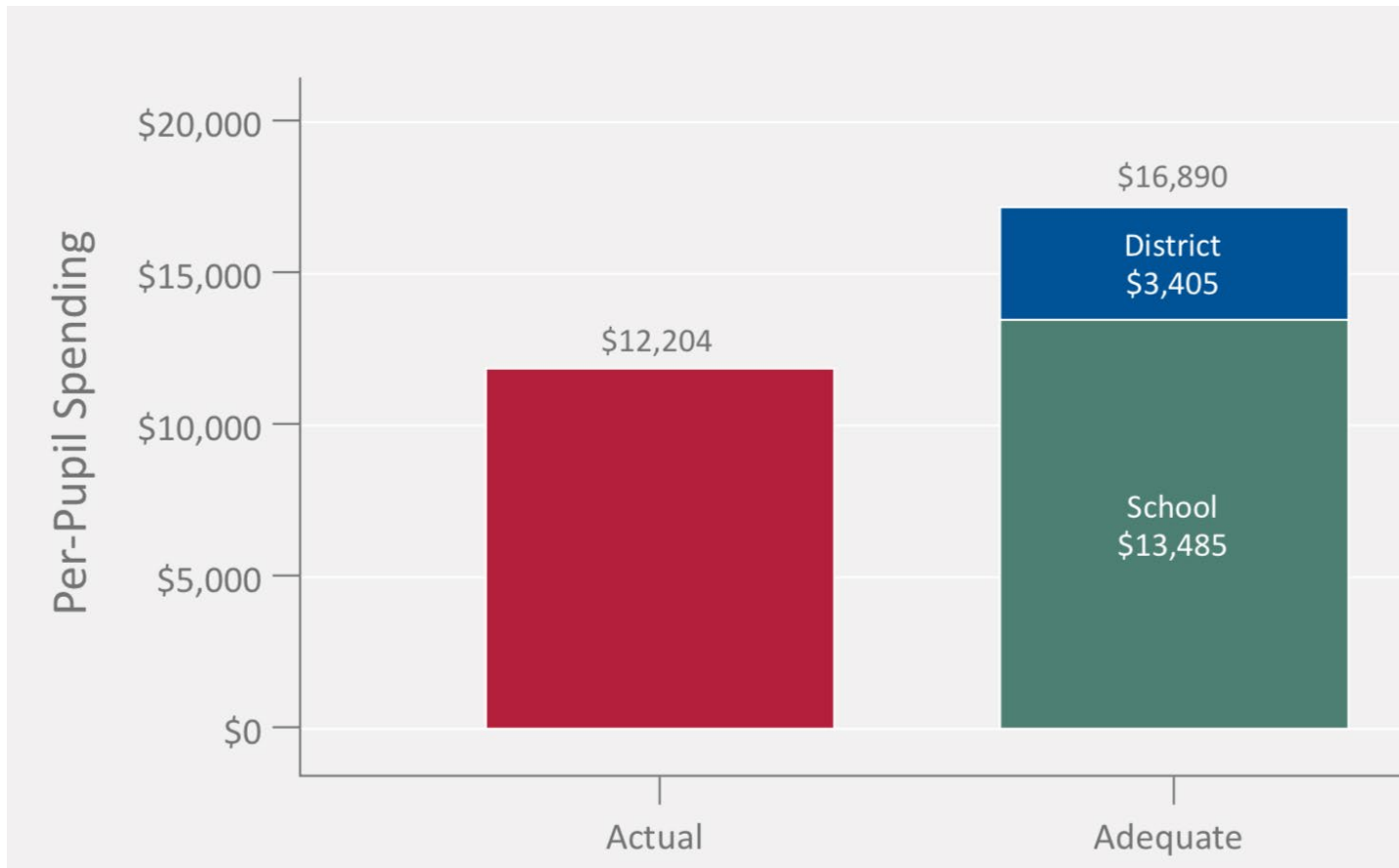


Funding for schools in California has improved...



<https://gettingdowntofacts.com/publications/working-toward-k-12-funding-adequacy-californias-current-policies-and-funding-levels>

...but funding remains short of adequate levels given the goals of state policies.



Average actual operational spending was \$12,204 per student in 2016-17.

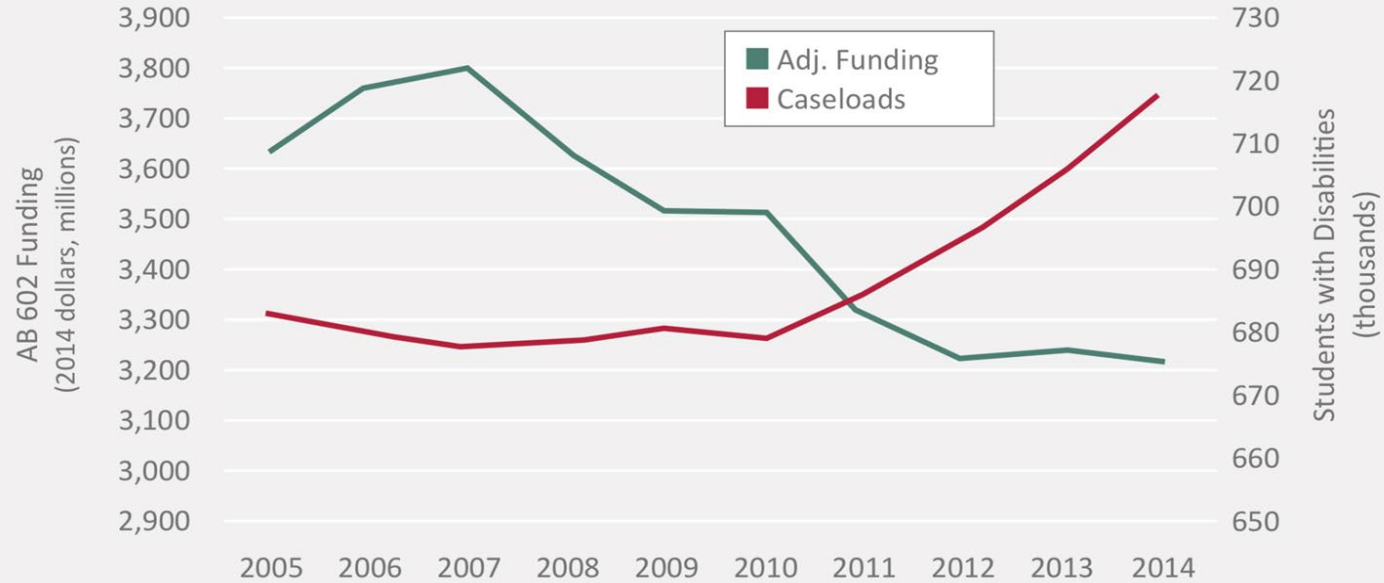
GDTFIII estimated that the *adequate cost* per pupil would be around \$16,890.

<https://gettingdowntofacts.com/publications/working-toward-k-12-funding-adequacy-californias-current-policies-and-funding-levels>

Districts' budgets are being impacted by rising costs.

Costs of Special Education

Figure 2: Changes in State Special Education Funding and Number of Students with Disabilities from 2005 to 2014



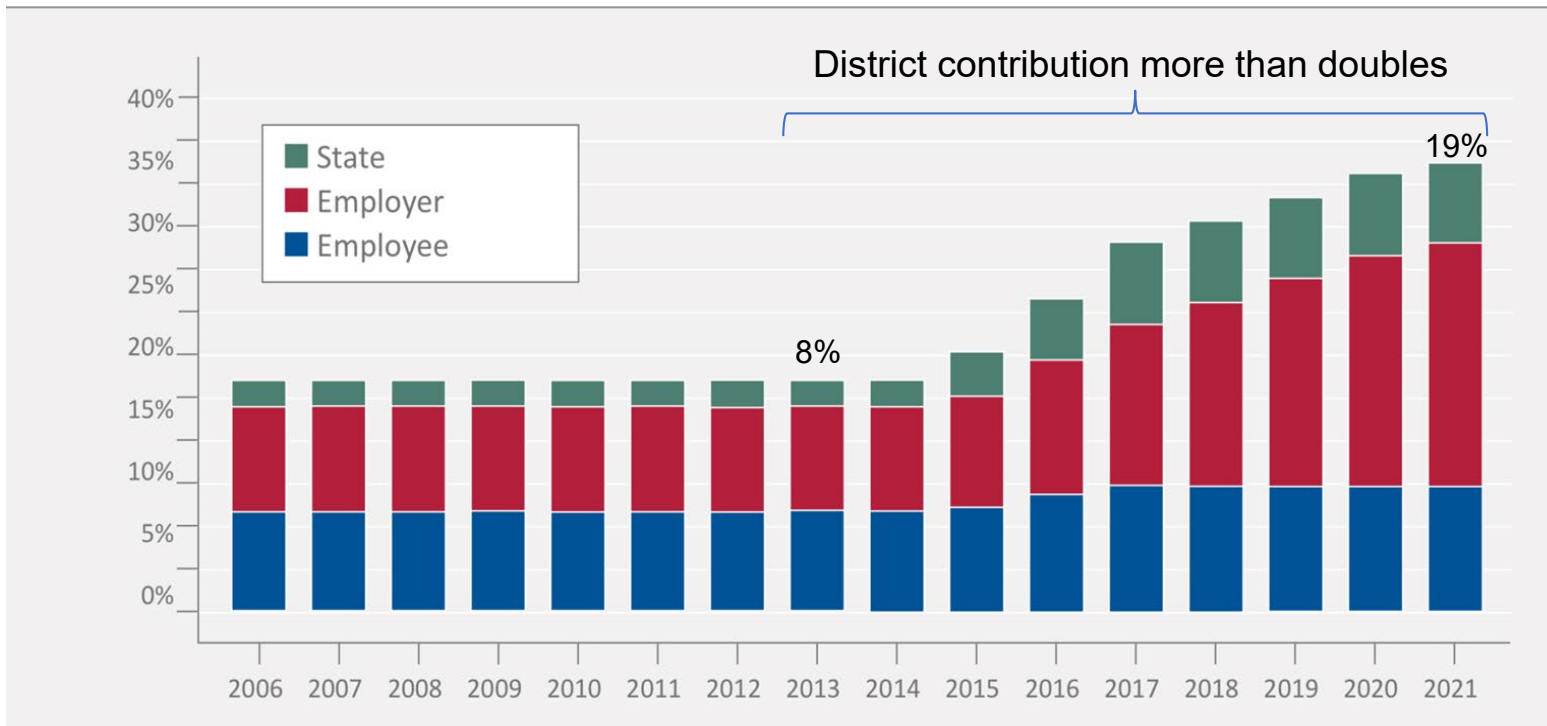
Inflation-adjusted state special education funding has decreased, while the number of students with disabilities has grown.

<https://gettingdowntofacts.com/publications/revisiting-finance-and-governance-issues-special-education>

Districts' budgets are being impacted by rising costs.

Growing Pension Liabilities

Figure 3: Realized and Projected CalSTRS Statutory Contributions, 2006–2021, as Percent of Salaries

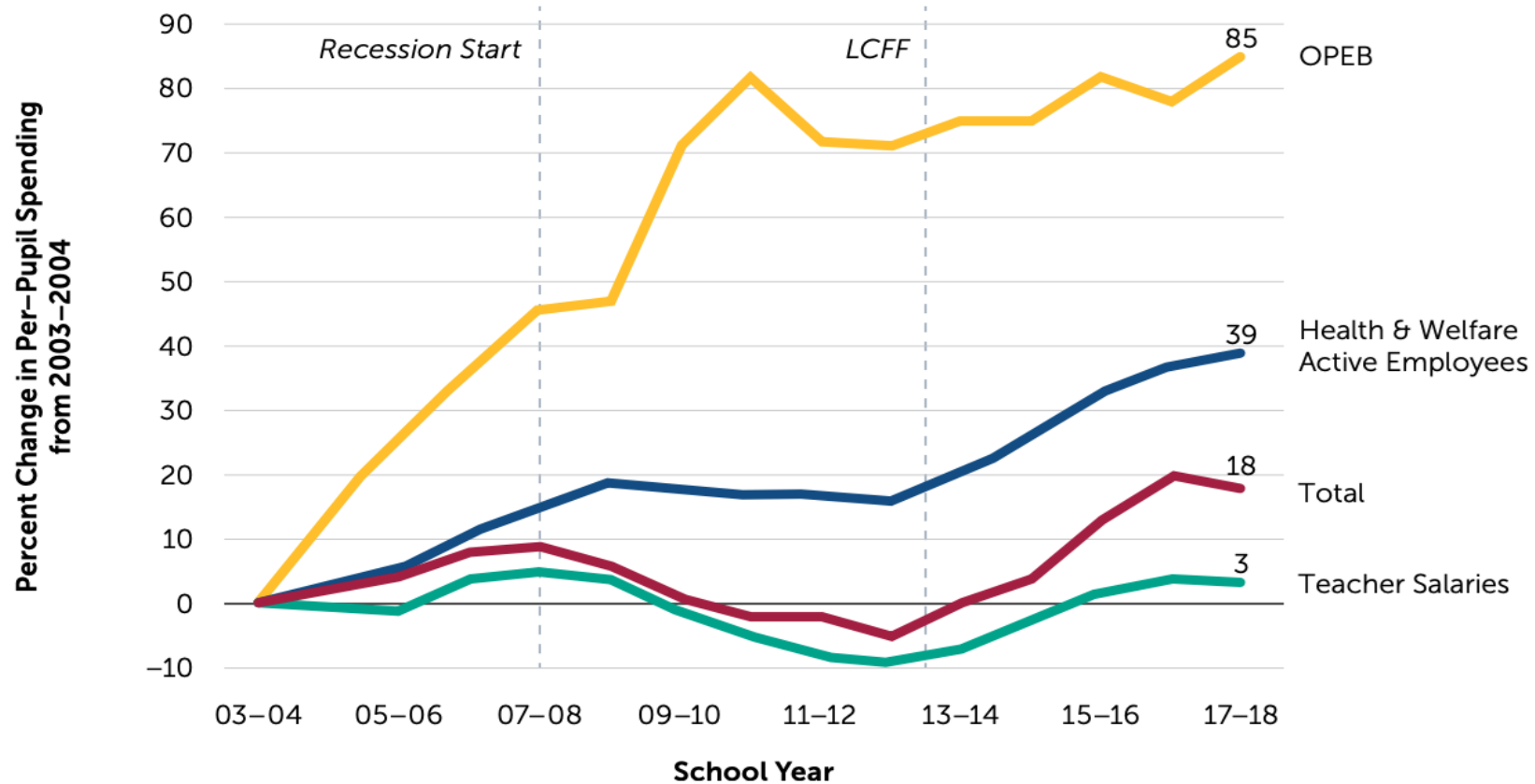


<https://gettingdowntofacts.com/publications/pensions-and-california-public-schools-0>

Districts' budgets are being impacted by rising costs.

Rising Health Care Costs and Liabilities

Figure 6. Changes in Per-Pupil Spending Since 2003–2004



<https://edpolicyinca.org/publications/challenges-employee-and-retiree-health-benefit-costs-california-districts>



What is the impact of these statewide budget challenges locally?

Agenda

- Overview of the two cases (Arun Ramanathan)
- Presentation, “The Canary in the Gold Mine: The Implications of Marin’s Rising Pension Costs and Tax Revolt for Increasing Education Funding” (Hannah Melnicoe)
- Presentation, “The Implications of Sacramento City Unified's Ongoing Budgetary Challenges for Local and State Policy” (Carrie Hahnel)
- Moderated panel
- Audience Q&A

Today's speakers



Carrie Hahnel -
Independent
Consultant

Terena Mares -
Marin County
Office of
Education

Hannah
Melnicoe - Pivot
Learning

Arun
Ramanathan -
Pivot Learning

Liz Guillen -
Public Advocates

Michelle
Giacomini - Fiscal
Crisis and
Management
Assistance Team
(FCMAT)

Pivot Learning's Mission and Vision

- Pivot Learning is a nonprofit organization whose **mission** is to partner with educators to design and implement solutions to their greatest challenges in achieving educational justice.
- We **envision** a future where our public schools provide our most underserved students with an outstanding education.

Pivot Learning's Values

- **Educational justice:** We serve the most underserved public school students so they can achieve at the highest levels.
- **Sustainable change:** We help educators and organizations build the skills and mindset to sustain improvements in student learning.
- **Nimble, scalable solutions:** We partner with public schools to develop innovative solutions to emerging challenges, and design those solutions to be scalable.
- **Results-focused:** Because we believe that getting better student outcomes requires changing adult behavior first, we measure our impact at both the adult and student.

About this Project

- California school districts are facing a budget squeeze.
- Recent funding increases have been outpaced by rising costs:



- This budget squeeze particularly harms vulnerable students.
- We aim to build deeper understanding among policymakers, advocates, and state and local decision makers about these funding challenges and how they are affecting students, educators, and the broader community.

Two Cases Studies Allow us to Examine these Budget Challenges in Two Different Contexts

- Marin County
 - Affluent, liberal county serving 18 school districts, many small
 - Voters are increasingly less willing to pass parcel taxes as pension costs rise
- Sacramento City Unified
 - High-poverty and diverse district, 13th largest in the state
 - Many stakeholders agree that the greatest fiscal challenge in SCUSD is the high cost of health care

The Canary in the Gold Mine: The Implications of Marin's Rising Pension Costs and Tax Revolt for Increasing Education Funding

About Marin County

- Known for its natural beauty and Democratic politics.
- In 2016, voters voted for Hillary Clinton (77% voted for) and against plastic bags (74% voted to ban them).
- In the same election, a previously-popular parcel tax in Kentfield failed, and another previously-popular tax in Mill Valley passed by fewer than 25 votes.

.... What happened?



Research Questions

- How has Marin County historically funded its districts and schools?
- What has been the impact of increasing pension and health costs on Marin County districts?
- What is the perspective of different sets of stakeholders on the impact of pension increases on Marin's education system?
- How will the evolving pension crisis impact funding for Marin school districts in the future?
- What are some potential solutions to the financial impacts of pensions on Marin districts?
- What lessons does the Marin experience offer for other communities and state and local leaders?

Methodology

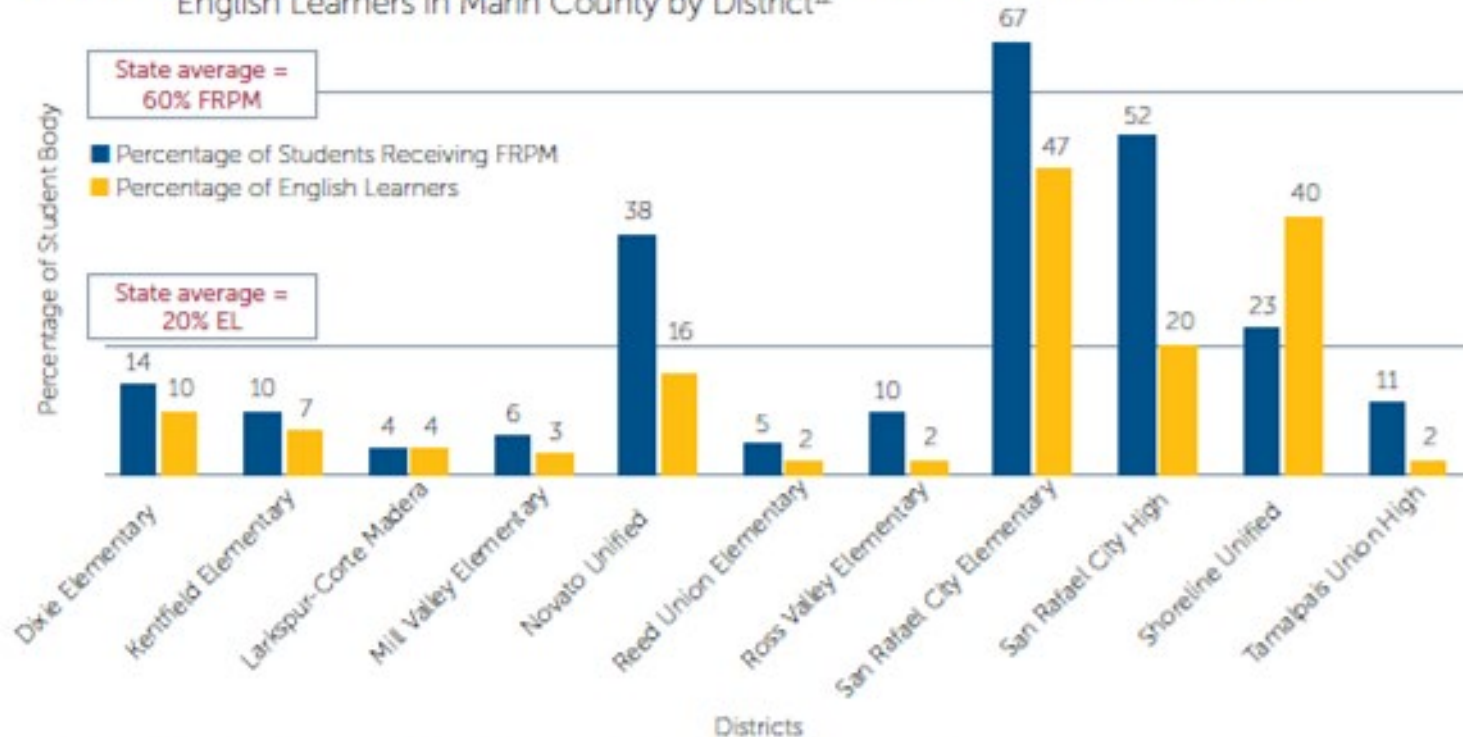
- **Data analysis:** 2018-19 district budgets, CDE Standardized Accounting Code System (SACS) historical data, J-90 data, and demographic and staffing files
 - This includes look at ten-year trends in Marin County for eleven target districts, including collection and manual data entry of 3 years of current and projected budget data
- **Interviews and focus groups:** ~35 individuals, including district and county administrators, advocates, school board members, and pension plan administrators

Marin's 18 districts serve ~33K students

District	2017-18 Enrollment
Novato Unified*	7,863
Tamalpais Union High*	4,828
San Rafael City Elementary*	4,730
Mill Valley Elementary*	3,086
San Rafael City High*	2,648
Ross Valley Elementary*	2,094
Dixie Elementary*	1,984
Larkspur-Corte Madera*	1,547
Reed Union Elementary*	1,444
Kentfield Elementary*	1,236
Sausalito Marin City	538
Shoreline Unified*	510
Ross Elementary	387
Lagunitas Elementary	249
Bolinas-Stinson Union	91
Nicasio	43
Laguna Joint Elementary	13
Lincoln Elementary	7
<i>*Included in Financial Analysis</i>	

Students who receive FRPM or are English Learners are concentrated in a handful of Marin districts

Figure 1. Proportions of Students Receiving Free and Reduced Price Meals (FRPM) and English Learners in Marin County by District¹²



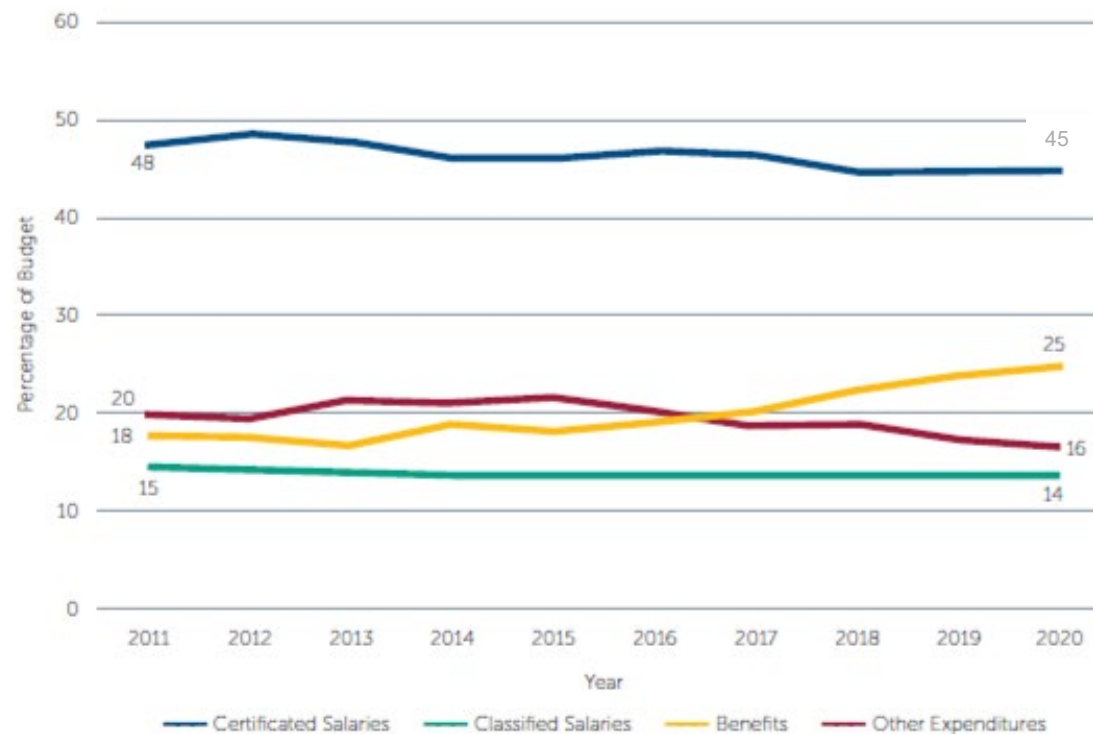
Source: "Free and Reduced-Price Meals" and "English Learners", www.Ed-Data.org

Marin districts raise significant amounts of parcel tax revenue

District	2017-18 Parcel Tax Revenue	2017-18 Parcel Tax Revenue as % of Budget
Novato Unified*	\$4,154,263	5%
Tamalpais Union High*	\$9,896,230	12%
San Rafael City Elementary*	\$3,034,536	5%
Mill Valley Elementary*	\$10,807,094	24%
San Rafael City High*	\$3,051,208	9%
Ross Valley Elementary*	\$3,922,471	16%
Dixie Elementary*	\$1,922,976	8%
Larkspur-Corte Madera*	\$2,943,514	15%
Reed Union Elementary*	\$2,284,606	10%
Kentfield Elementary*	\$4,346,996	24%
Sausalito Marin City	\$0	N/A
Shoreline Unified*	\$973,073	7%
Ross Elementary	\$842,002	11%
Lagunitas Elementary	\$684,803	17%
Bolinas-Stinson Union	\$537,600	12%
Nicasio	\$189,815	18%
Laguna Joint Elementary	\$0	N/A
Lincoln Elementary	\$0	N/A
*Included in Financial Analysis		

Marin districts have begun spending more on benefits and less on certificated salaries

Figure 2. Spending by Marin County Districts Over Time on Salaries and Benefits as a Share of Overall Budgets



Findings

- The current financial situation for districts in Marin County is not sustainable.
- There is a tension between teacher compensation and recruitment: despite their financial constraints, districts feel immense pressure to increase teacher salaries in order to recruit and retain teachers in an extremely high-cost area.
- There is strong support for teachers and programs for students, but even in Marin County, where the community is engaged and well-informed, there is limited public awareness of district flexibility to respond to the impacts of rising pension costs.
- Due to a growing concern that dollars are not reaching schools, but instead being used to fund pensions, parcel taxes have faced increasing opposition in Marin County.

In Marin districts, costs have been outpacing revenues

- “The consensus has been that any district with a balanced budget today has to cut next year in order to maintain that. We’ve had some CBOs do the calculations; what will happen if we do nothing? The natural total percentage increase in [a district’s] budget is somewhere from five to six percent each year.”
-Marin County Administrator
- Districts report feeling squeezed by increasing pension costs, health care costs, declining enrollment, and rising special education costs.

Evidence of financial instability exists across Marin County districts

- Districts report that they have increased class sizes, not replaced retiring staff, and have provided more limited professional development for teachers.
- Administrators shared that, if they were able, they would expand and/or more fully implement existing programs to serve vulnerable students.
- Other district leaders reported closing school sites and providing fewer electives to students (including newcomers), at least partially due to rising pension costs.

Tension: Acknowledgement of need to increase teacher salaries vs. use of increases in funding

- District leaders shared two simultaneous thoughts:
 - Marin is expensive, and, for many, teacher salaries can't cover the cost of housing.
 - They feel an expectation that any increases in funding will go to teacher salary increases.
- Perhaps unsurprisingly, districts and teachers report that relationships between the two groups have become more contentious over time.

Public awareness of the factors driving rising pension costs is mixed

- In general, Marin voters strongly support their local public schools and public education.
- A handful of vocal community advocates have been organizing for pension reform and drawing attention to the gap between what has been promised and what has been set aside for pensions.
- There has been a high level of media coverage of the cost of fire, police, and other public pensions.

Parcel taxes face increasing opposition due to concerns about pension costs

- “[Rising pension costs] have cut into our ability to raise revenues. [The County has had] parcel taxes fail, primarily [due to the idea that] this is just a backdoor way of paying for more pensions. They don’t want a parcel tax for pensions, they want it to go to kids, and so it’s been a big factor in every major parcel tax opposition for the last couple of years.”

-School board member

- Community members report growing tax exhaustion. This may grow once community members experience the impact of the decreased federal State and Local Tax (SALT) cap.

How are Marin County districts adapting?

- Smaller annual increases
- “Carve outs”
- Experiencing an increase in seniors requesting exemptions

Lessons Learned

- **Districts facing real and unavoidable cost increases simply need more funding.**
 - Addressing student needs simply costs more than California has spent for decades. If state and local leaders want to fully support student success and stop seeing districts enter financial distress, they will need to find additional revenues.
- **Education leaders must continue to build awareness of the impact of rising pension costs, and work together to identify solutions.**
 - Pension costs have become a contentious issue in Marin County and are likely to become contentious in other parts of the state. At the same time, benefits (including pensions) and salaries are key to retaining teachers.

Lessons Learned

- **Given the increasing vulnerability of local taxation, state and local advocates should prioritize a statewide funding solution.**
 - State and local leaders should heed the lessons of increasing anti-tax sentiment in famously progressive Marin.
 - Statewide and local leaders must prioritize the development of a statewide education funding solution rather than increasing reliance on local taxation.

The Implications of Sacramento City Unified's Ongoing Budgetary Challenges for Local and State Policy

Methodology

- **Document review:** District financial reports, board presentations and minutes, reports and letters submitted to the district by the Sacramento County Office of Education (SCOE), FCMAT, fact-findings, and auditors
- **Data analysis:** CDE Standardized Accounting Code System (SACS) data, J-90 data, demographic and staffing files
- **Interviews:** District, county, and FCMAT administrators, school board members, a parent organizer, and representatives of two labor organizations
- **Focus group** with parents and students

SCUSD's fiscal crisis had been mounting for years

- “Qualified” budgets as far back as 2007, a signal that major changes were needed
- For years, SCOE has counseled SCUSD to improve its budget situation
 - SCOE advised: cut expenditures, reduce deficit spending, stop depending on one-time funds, improve budgeting practices, reduce healthcare costs for current teachers and retirees, reduce unfunded retiree health care liabilities
- In 2017, the SCUSD board approved a new teacher's contract that it could not afford without \$16M in budget reductions

The roots and reasons for SCUSD's fiscal distress

Statewide Budget Pressures

- Declining enrollment
- Rising special education costs
- Rising pension costs

Challenges with Business Practices & Labor-Management Relations

- Tense labor-management relations
- Bad business practices
 - Position control
 - Coordination between budget, payroll, and personnel departments
 - Erroneous data and inaccurate assumptions
 - Reliance on one-time funds

High Health Care Costs

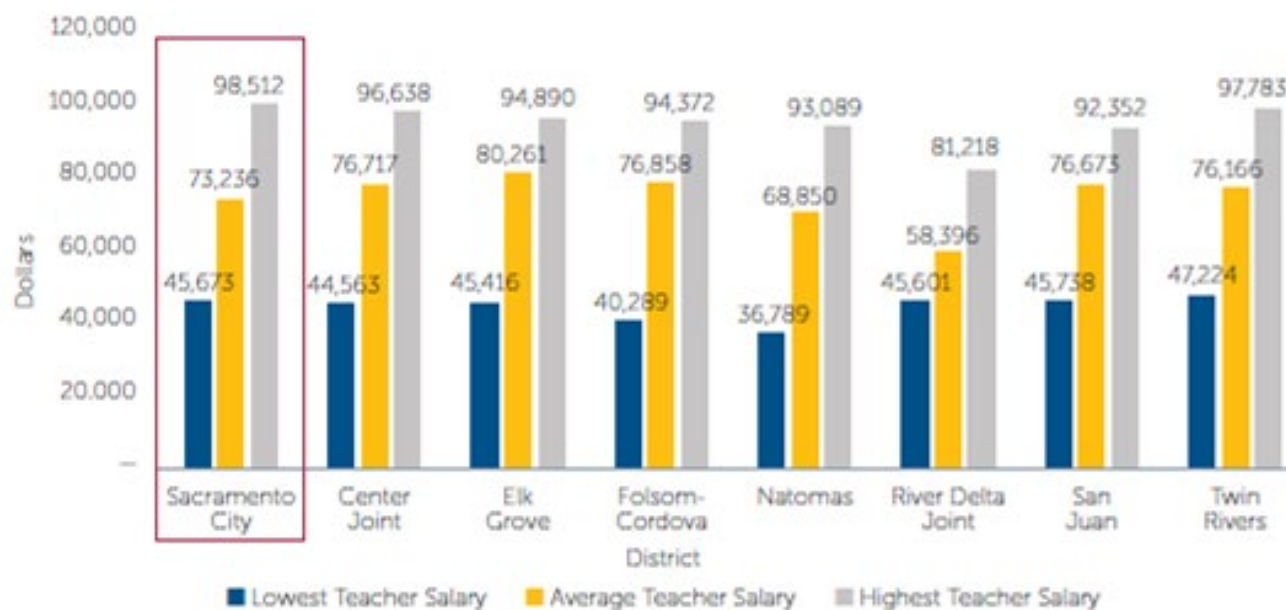
- Generous employee and retiree health benefits
- An expensive health care plan
- Only partial pre-funding of retiree health benefits

How Unique is Sacramento City Unified's Budget?

1. SCUSD teacher salaries are comparable with other districts
2. SCUSD's central-office administrative costs are at the county average
3. SCUSD spends significantly more than its neighbors on employee and retiree health care benefits

SCUSD teacher salaries are comparable with other districts

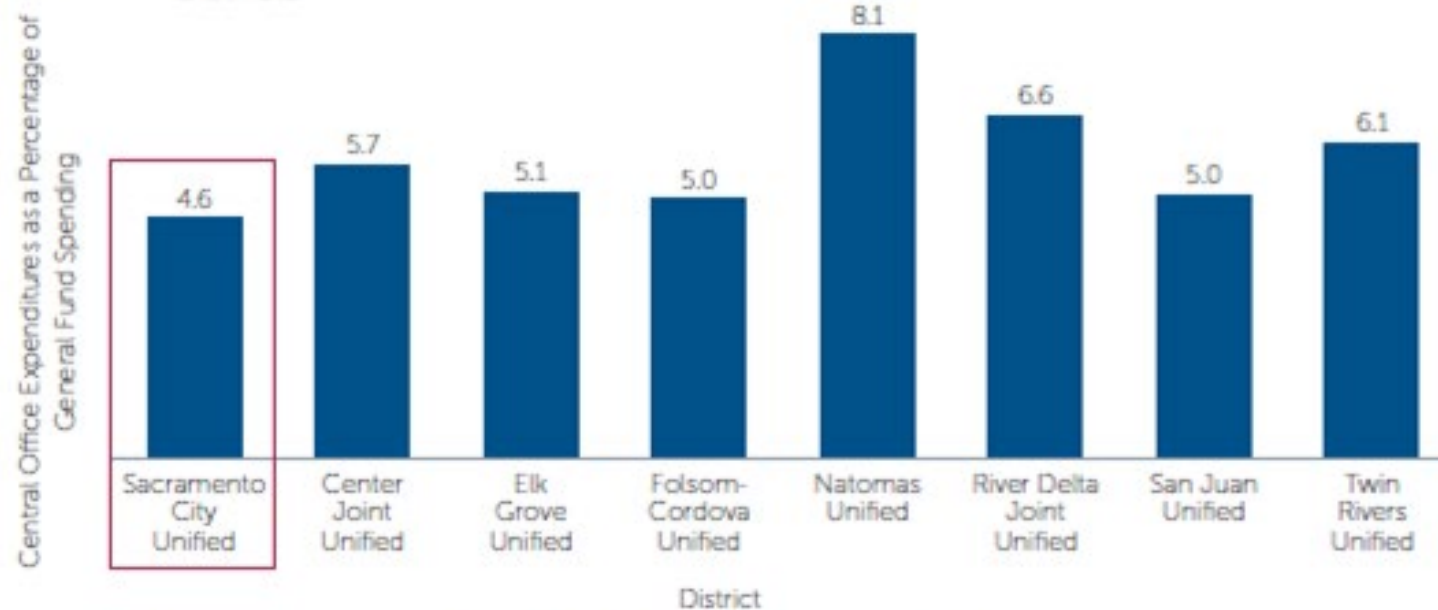
Figure 2. SCUSD's 2017-18 Teacher Salaries Compared to Neighboring Districts



Sources: California Department of Education J-90 data, 2017-2018, tasal118 table; Ed-Data, "Teacher Salaries"

SCUSD's central-office administrative costs are at the county average

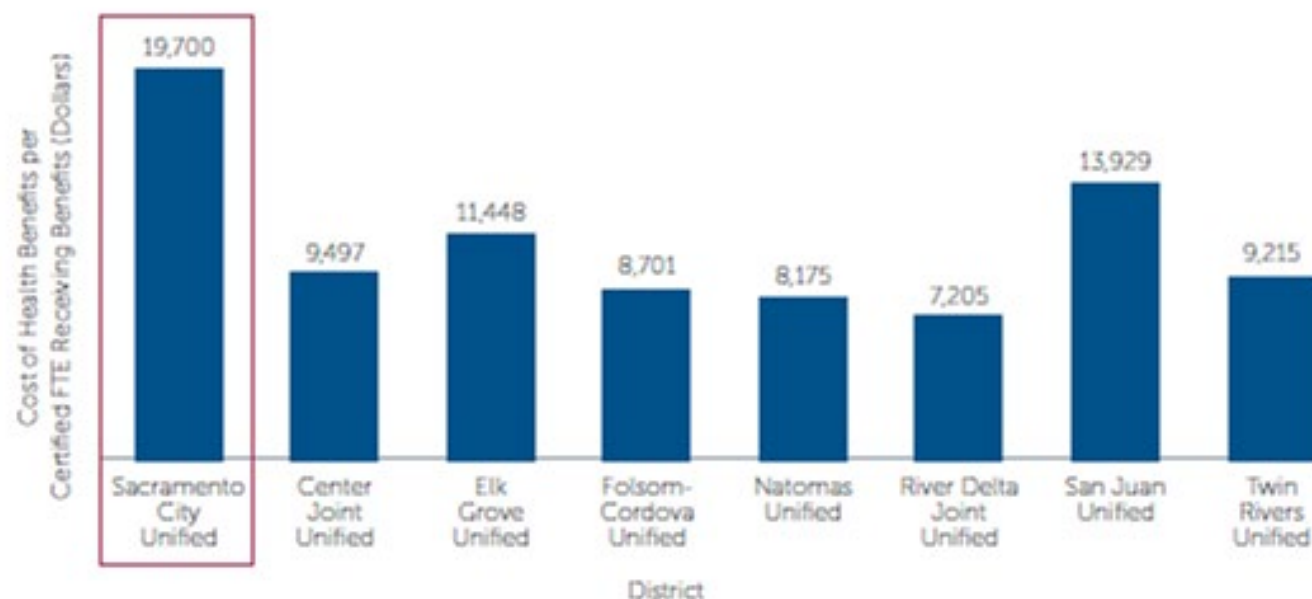
Figure 3. SCUSD's 2017-18 Central-Office Spending as Compared with Neighboring Districts



Source: California Department of Education SACS data, 2017-2018, General Fund only

SCUSD spends significantly more than its neighbors on employee and retiree health care benefits

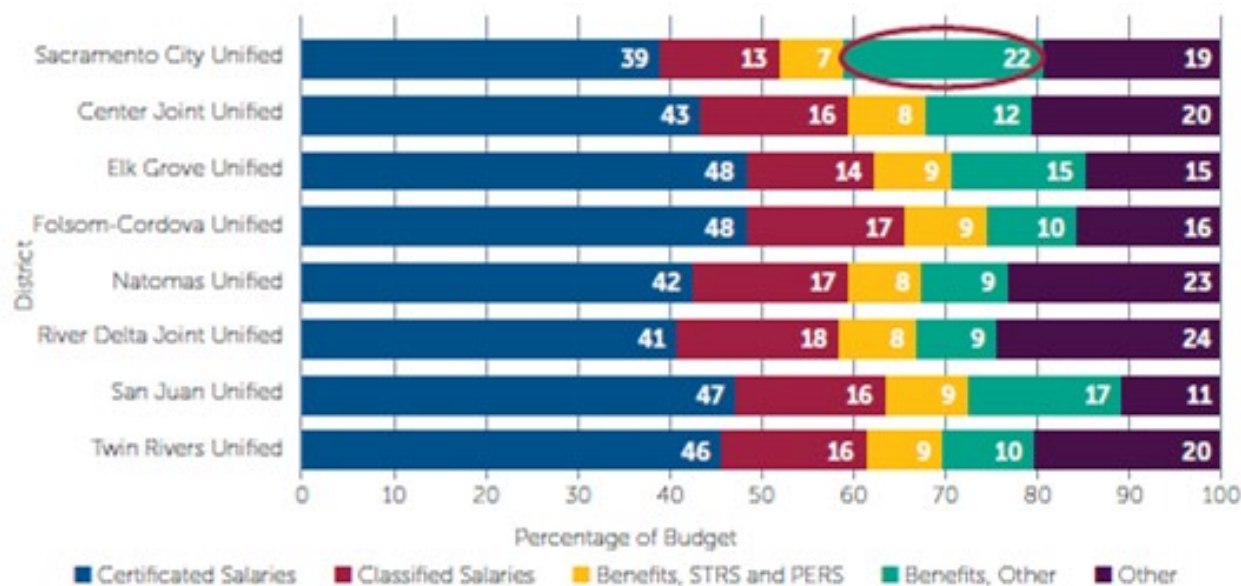
Figure 4. SCUSD Health Benefits Costs, Compared to Neighboring Districts



Source: District data from California Department of Education J-90 data, 2017-2018. This data set covers certificated teachers, not all bargaining units.

SCUSD spends significantly more than its neighbors on employee and retiree health care benefits

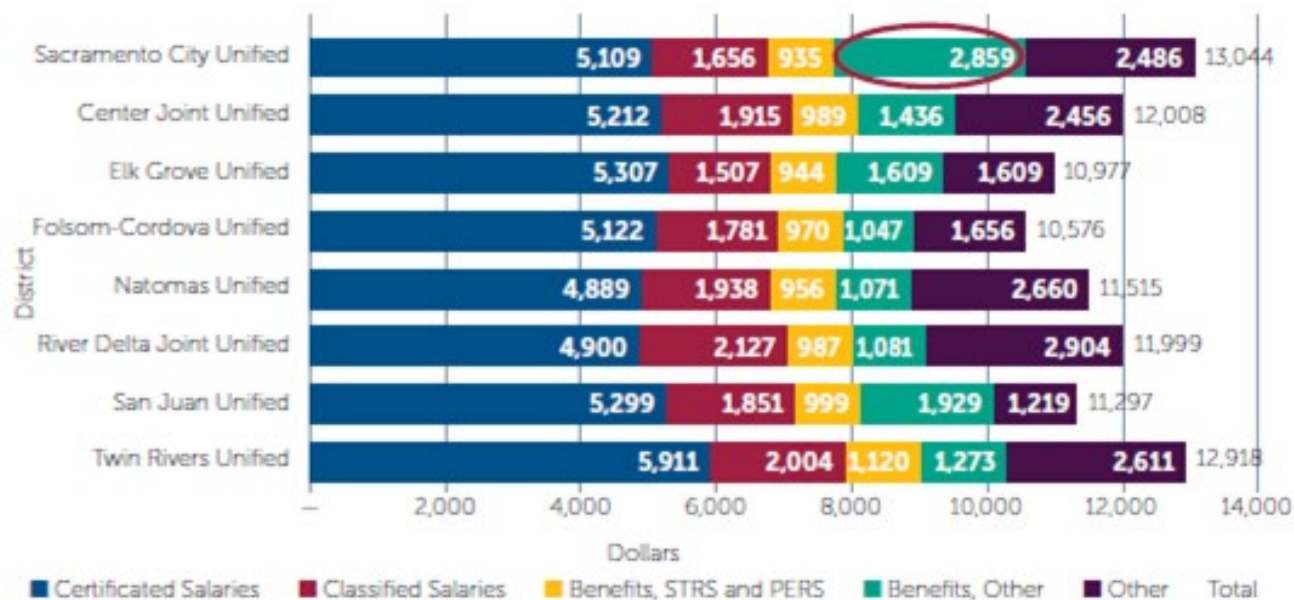
Figure 5. SCUSD's 2017-18 Expenditures by Category, as a Percent of Total Expenditures, as Compared with Other Sacramento County Districts



Source: California Department of Education SACS data, 2017-2018, General Fund only.

SCUSD spends significantly more than its neighbors on employee and retiree health care benefits

Figure 6. SCUSD's 2017-18 Per-Pupil Expenditures by Category, as Compared with Other Sacramento County Districts



California Department of Education SACS data, 2017-2018, General Fund only.

The Impact of Budget Challenges on Employees and Students

1. Fewer certificated and classified staff than neighboring districts, and challenges maintaining talented staff and teachers.
2. Limited opportunities for the district's highest need students.
3. Growing inequities between school sites and districts.
4. Reduced public commitment to public education.

Investing in the District's Equity Agenda

- If SCUSD spent the county average for health and welfare benefits, it could save approximately **\$25 to \$40 million** annually, roughly **\$650 to \$1,000 per pupil**.
- Even if the district were to use half of that to reverse deficit spending and reduce liabilities, it could still have **\$12 to \$20 million** left to invest in programs that support equity.

Lessons Learned

- Unaffordable health benefits, if not addressed, will squeeze district budgets.
- Rocky labor-management relations jeopardize financial stability.
- Additional county or state authority to take corrective action may be needed to address the root causes of fiscal distress.
- Districts facing real and unavoidable costs increases need more funding.

Reflection panel



Terena Mares - Marin
County Office of
Education



Liz Guillen - Public
Advocates



Michelle Giacomini - Fiscal
Crisis and Management
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Upcoming PACE Events

Toward a Vision of Equity in College Access: Re-evaluating College Admissions

Friday, Nov. 22, 10:00am-4:00pm

Location: UC Berkeley School of Law



The Changing Role of County Offices of Education in Supporting District and School Improvement

Friday, December 13, 2019 -
11:30am to 1:00pm

